Research Paper Commerce

An Analytical Study on Financial Reporting Practices of Selected Fmcg Companies in India – A Conceptual Approach

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ABSTRACT

Corporate financial reporting is a part of business activity as it is mandatory to all companies established, listed and working in India. Corporate laws, SEBI rules and ICAI act has been designed in India. Recently Companies Act, 1956 & 2013, Income Tax Act, 1961, Income Tax rules, 1962, Gujarat VAT, 2013, RBI Act and SEBI Act are regulators of Corporate Financial Reporting Practices prevailing in India since so far. Here, in this research paper emphasis of discussion is made on purely mandatory and voluntary reporting of companies as in prescribed and suggested or recommended formats. Most of companies working in India are differently disclose their financial and non financial data. Findings of the paper represent that there is significant difference among the financial reporting practices of selected FMCG Companies in India.

KEYWORDS Corporate Financial Reporting, IFRS, FMCG, Corporate Governance, CSR, Mandatory and Voluntary Disclosure, Segment Reporting etc.

INTRODUCTION:
Being a branch of social science, the role of accounting has been changing with economic, social, political and cultural development over the past few centuries. Accounting is now a broad activity in India as it relates with auditing and reporting too. Business reporting is concerned with many stakeholders as its significance of disclosure of financial and non-financial information. Potential investors are also expecting full disclosure of the company so that they can either plan to buy shares of the reporting companies in future. There are two major types of Corporate Disclosure: (1) Mandatory Disclosure and (2) Voluntary Disclosure. Reporting that is compulsory as per laws and regulations is said to be mandatory and which is not compulsory but recommended to be disclosed with mandatory reports is said to be voluntary.

There are another two parts of the same: (1) Quantitative Disclosure and (2) Qualitative Disclosure. In Annual Reports of the companies, there are two kinds of information are disclosed: (1) Quantitative that is statistical in nature i.e. Balance Sheet and (2) Qualitative i.e. Brand Valuation. Generally, Companies are entitled to disclose all financial information in both the formats, quantitative as well as qualitative. However, voluntary reports are only recommended and expected to be disclosed by companies. Mandatory reports have compulsory designed formats to be followed whereas there are no formats prescribed for voluntary disclosure in India.

CORPORATE FINANCIAL REPORTING – CONCEPT:
Corporate: Corporate word denotes that " a specific institutional design performing as a whole company with multi-activities that includes: (a) Manufacturing or rendering services, (b) Accounting, (c) Auditing & Reporting (d) disclosure, (e) Social welfare etc."

Financial: All information disclosed in annual reports contains financial and non-financial information. i.e., Profit and Loss Account, Balance sheet, Director's report, Economic Value Added, Brand Valuation and so on.

Reporting: Sharma R.C. and Krishna Mohan (1990): "The word 'Report' is derived from the Latin 're operate' which means to carry back (re= back + portae = to carry).

Corporate Financial report means preparation of financial statements by corporate form of business according to predetermined norms of accounting and rules formed by government, different acts and provisions of regulatory and professional bodies. Generally Income statement, Balance sheet, Cash flow statement, consolidated financial statements are included in it. The preparation and presentation of information in this report is in mandatory and voluntary nature. In India US GAAP is followed and internationally IFRSs (International Financial Reporting Standards) are followed for the disclosure.

REVIEW OF LITERATURE:
Review of literature means any work done on the same research problem ago by another person/s or institute/s. Their work may be giving differ output than that of us. Findings of other research scholar are significant one for our so called research work.

Cerf (1961) conducted the pioneer work using a disclosure index for measuring the extent of corporate disclosure. Using an index consisting of 31 items, Cerf studied annual reports of 527 companies (258 NYSE, 113 other exchanges, and 156 OTC firms).

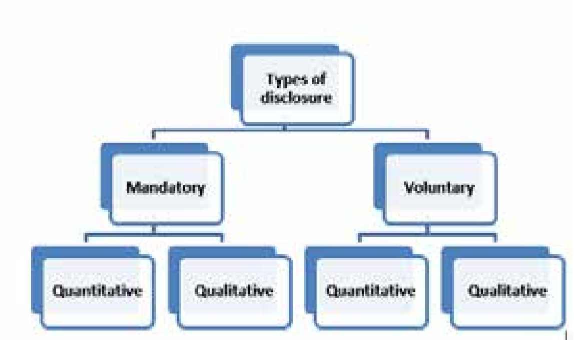
Singhvi (1967) examined corporate disclosures through the annual reports, both in the US and India, for the period 1964-65 by using a disclosure index consisting of 34 items.

Chandra (1974): examined the consensus on the value of informational items included in the annual reports between those who attest the annual reports (public accountants) and those who use such reports (security analysts). Using a questionnaire containing 58 items, responses were obtained from the said group on a 5- point scale.

Ahmed and Zeghal (1986): examined social responsibility disclosures by 15 companies – 6 banks and 9 petroleum companies – in Canada.

SIGNIFICANCE OF CORPORATE FINANCIAL REPORTING:
The most important components of corporate disclosure are the balance sheet, profit and loss account and directors' report. The significance of corporate report can be considered in reference to three categories:

For company:
To meet legitimate requirements
Measurement of Business Performance
To know financial status
For the purpose of Inter-firm comparison
To attract potential investors
Image
For shareholders:
To know result
Evaluation of investment decision
Future Plans
Queries Reply
For others:
Potential Investors
Academicians, Researchers, Analysis
Employees
Government
Financial Institutions and creditors
CORPORATE FINANCIAL REPORTING PRACTICES:



MANDATORY DISCLOSURE	VOLUNTARY DISCLOSURE
Quantitative Disclosure: Profit and Loss Account Balance Sheet Cash flow statement Abstract of Balance sheet and general business profile Consolidated Financial Statement Annual Reports of Subsidiary Companies Segment Reporting Research and Development Qualitative Disclosure: Directors' Report Auditors' Report Notes of Accounts Accounting Policies Corporate Governance Notice of AGM Management Discussion and Analysis (MDA) Auditors' Report on Cash Flow Statement Related Party Disclosure Disclosure on EPS Disclosure on Dividend Compliance Certificate Employee's Statement under Section 217 (2A)	Quantitative Disclosure: Inflation Accounting Human Resource Accounting Value Added Statement Economic Value Added Performance Ratios Disclosure for Capacity Management Contribution for Foreign Exchange Expenses in Foreign Exchange Report Preparation Cost Brand Valuation Knowledge Valuation and Other Intangible Assets Balance Score Card Transfer Pricing Reports required as per norms of other countries Accounts as per US GAAP Reconciliation Statement of Profit of US and INDIAN GAAP Social Profit and Loss Account and Balance Sheet Fund Flow Statement Qualitative Disclosure: Environment Reporting Social Development (Responsibility) Product Segment Shareholders' Information Geographical Segment Management Structure Managing Directors'/ Chairman Report Budgetary Control Employee Welfare Measures Joint Ventures International Accountants and Auditor's Report

RESEARCH METHODOLOGY:

In this research paper a researcher has selected 10 FMCG Companies like HUL, ITC, Dabur India, Marico, Zydus, Colgate Palmolive, Godrej Consumer, Emami, Nestle and Companies and used 5 years information related with Corporate Financial Reporting Practices.

Research Hypotheses:

Ho: There is no significant difference among the financial reporting practices of selected FMCG Companies in India.

$H_{1:}$ There is significant difference among the financial reporting practices of selected FMCG Companies in India.

FINDINGS:

1. There is significant difference among the Financial Reporting Practices of Selected FMCG Companies in India.
2. All companies disclose different voluntary information FMCG Companies.
3. HUL, ITC, Colgate Palmolive, Nestle are leading in Disclosure Practices.
4. More FMCG Companies can be selected for further study.
5. 10 or more years' data can be taken for further study for better result of the study.

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